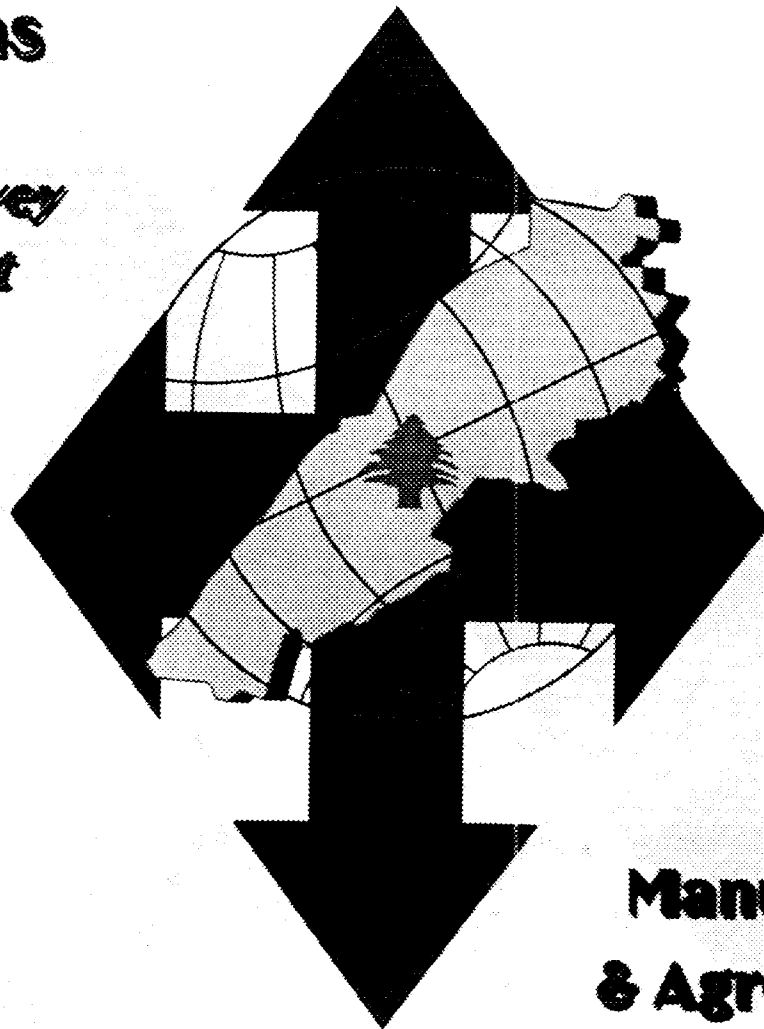


Exportation & Import Substitution In The Lebanese Agricultural Sector Programs

***A Field Survey
Final Report***



**Light
Manufacturing
& Agro-Industry
Cluster**



INFORMATION
International



**April
2000**



Exportation & Import Substitution In the Lebanese Agricultural Sector

A Field Survey
Final Report

Prepared By:
Information International Ltd.

In Collaboration With:
SRI International

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EXECUTIVE SUMMARY

Despite the grave problems and obstacles confronted, the agriculture and agrofood industry sectors are perceived as productive. Different Lebanese Ministries and private enterprises have been dedicating time and efforts to the improvement and strengthening of these productive sectors, however, most initiations have not been successfully fulfilled; they were either insufficient policies or inefficiently implemented.

A field survey was conducted by Information International upon the request of the SRI International in order to evaluate the opportunities of enhancing local production and exportation in the Lebanese agri-industry sector. Henceforth, two questionnaires were designed by the SRI, one on high Value Export Opportunities and the other on Import Substitutes. Correspondingly, both food and beverages processors and fresh market producers were presented with the questionnaires in corresponding to their sector of activities.

Thereafter, food and beverages processors and fresh market producers were divided into sub-categories with respect to each of the above sectors. Thus the study included data on the sectors in general, and in particular in terms of each sub-category. Accordingly, these results indicated that the principal export market was the United States; whereby the most exported products were pickles and jam. Concerning local production, tomatoes ranked first among the local agricultural products; these commodities were distributed mostly to the vegetable retail markets.

The enhancement and improvement of local production and the export sector in Lebanon faced several obstacles. These constraints were of two origins: business oriented and policy oriented. The business-oriented obstacles mainly comprised of high costs of transportation for exporting products and for local production. The major policy-related problems include the absence of adequate policies aiding exportation and the lack of governmental control and protection of domestically produced goods.

Despite the above mentioned constraints, fresh market producers and food and beverages processors proposed a series of actions that could be pursued in order to expand their export and domestic sales. These actions were primarily: the acquisition of new technologies and machines, and the creation of new export markets. The study also revealed other aspects of export opportunities and import substitutes: the product of a unit price, the cost structure of certain products, annual exports and domestic sales, and means of expanding upon exportation and local production (including import substitution).

Conclusions were drawn and recommendations given in accordance to the responses from the two questionnaires, as well as governmental policies on the industry and facts on the Agricultural sector's performance. Additionally, Information International provided its own analysis of the industry and means of improvements based on the results of the study and the performance of the sector.

I. OVERVIEW

The economic situation in Lebanon has recovered part of its vitality since the end of the war in 1990. This was evidenced by a steady improvement in the Gross Domestic Product (GDP). However, with respect to the agricultural sector and the National GDP, its contribution was relatively low, especially when compared to the services sector, which has most benefited from the reconstruction plan launched by the Government.

It could be asserted that the agricultural sector in Lebanon struggles to succeed. Many studies were conducted in order to aid this sector and the resulting recommendations were neither always within the required level, nor were they implemented effectively when they were efficient.

Henceforth, since the sector is, evidently, essential for the development of Lebanon, and due to the fact that its performance has been, in the past, regarded as a relatively major contribution to the Lebanese economy, specific policies for its development are necessary. It is crucial for the government, as well as any private enterprise, to initiate policies and incentives towards the sector. Specifically, actions ought to be taken to enhance local production at lower costs and more affective conditions, giving such products a greater competitive edge when exported (i.e. increasing exports at the same time).

Based on these facts, Information International conducted a field survey, upon the request of the Stanford Research Institute (SRI), with the aim of aiding the further development of the Lebanese agricultural sector.

II. OBJECTIVES

The general objective of the study is to assess the Lebanese Agriculture and Agrofood Industry sectors, in order to evaluate their potentials of expanding for the reason of increasing exports to external markets and providing import substitutes by intensifying local production. Therefore, the aim of the field survey was two-fold: the first, to assess the high value of export opportunities, and the second, to evaluate the concept of import substitution.

More specifically, the objectives revolved around the following.

1st. High Value Export Opportunities

- ◀ Determining the constraints facing the development of the agricultural exportation opportunities.
- ◀ Determining the actions that could be undertaken in order to resolve problems encountered.
- ◀ Evaluating the scope for export growth.

2nd. Import Substitution

- ◀ Determining whether import quantities could be reduced.
- ◀ Determining the possibility and potential of increasing local production and diversifying the nature of production.
- ◀ Determining the different strengths and weaknesses of the agricultural production in Lebanon.
- ◀ Specifying the major business and policy-related problems facing fresh market producers and food and beverages processors.
- ◀ Assessing the actions to be undertaken, as suggested by the fresh market producers and food and beverages processors for the increase of domestic sales.

As a means to fulfill those goals, background information on the Lebanese economy in general, and the agricultural sector in specific is provided. Then results from the field survey are reported and analyzed. And finally, recommendations are made with respect to the responses of the field survey, the current economic condition in Lebanon (with emphasis on the agricultural sector), and Information International's own analysis.

III. BACKGROUND

The agriculture sector occupies a considerable position in the Lebanese economic activity. Despite the fact that the agricultural sector is considered a major productive sector, a relatively insignificant contribution is allocated by the National Governmental Budget to the Ministry of Agriculture (0.3% for the year 2000, Official Gazette, 16 February 2000). Its share is 0.5% of the total budget of developmental projects of the Council for Development and Reconstruction (CDR) in accordance to a 5-year plan. For a productive sector, these contributions are evidently quite low, especially when the fact that economically active population of the agricultural sector constitutes approximately 9.2% is taken into account (Lebanon-Country Report, 1999). And, this is reinforced, if the agricultural sector in 1961 is reflected upon, whereby, the agricultural labor force was 50% of the total population, and it accounted for 15.8% of the Gross National Product (GNP) (IRFED, 1960-61 study). However, it should be stated that in 1961 Lebanon's economic growth was at its peak.

Cultivated areas in Lebanon occupy 262.635 ha. Diversity of natural relief and multiplicity of climatic characteristics result in great varieties of Lebanese agricultural crops. The main products are fruits (temperate zone fruits, subtropical fruits, edible nuts), field crops (cereals, tubers, bulbs, forages, industrial crops and food legumes), vegetables (fleshy, leafy), and flowers.

The total production of these main crops is evaluated to be more than L.L. 1.500 billion (that is approximately 3 million tons; Results of Research about Agricultural Production, 2000).

The Agriculture sector has also been retrograding at a steady rate due to many obstacles, mainly rural exodus and a decrease in land cultivation by new generations.

In fact, Lebanese farmers face major problems; among them are the high costs of production and very low revenues, market stagnation, high prices of inputs and equipment, irrigation infrastructure, and a lack of adequate extension projects.

The public administration presented by the Ministry of Agriculture is taking decisive steps towards aiding Lebanese fresh market producers. Nonetheless, it is also encountering critical problems (such as a lack of control and an absence of reliable agricultural policy) worsened by the increasing public debt.

The Lebanese Agrofood Industry is comprised of small enterprises, some of which are not controlled, and others do not even have an official permit, while others are not even registered. These enterprises process different products, including, bottled water and beverages (wine, arak, juices), canned and processed food (vegetables, fruits, jam, pickles, chicken), and dairy products (labneh, Lebanese cheese and yogurt) .

Three Lebanese Ministries govern the Agrofood Industry. The Ministry of Industry directs its main sectors. The Ministry of Agriculture is responsible for the locally produced inputs, and the Ministry of Economy and Trade regulates imported inputs.

The Agrofood Industry, in general, confronts problems of various types, namely, institutional obstacles (lack of coordination, and of national policy), socio-economic problems (lack of long-term credits, of internal and external marketing channels), and technical hindrances (professional staff deficiency, high cost and high taxes on the imported packaging material). In particular, the industry's development and its policies face the following severe constraints: political and socio-economic problems (lack of clear market strategy and of incentives to farmers), technical restraints (poor post-harvest technologies, inefficient management of land and water use), institutional hindrances (lack of agricultural credit services, lack of regulation and quality control systems), and environmental constraints (misuse of water, land, forestry, fishery) (Lebanon-Country Report, 1998).

Despite the evident graveness of the above problems, the Agrofood industrial sector ranks high in importance with respect to the other industries in Lebanon. It is regarded among the most important exporting sectors in Lebanon with markets including the Arab Countries, Europe, USA, Canada, and Africa. Along with commodities from the Agrofood industries, edible vegetables and fruits are perceived as the highest exported products.

In general it is assumed that, in Lebanon as a whole, the export and import sectors are both relatively well developed. According to the Directorate of Customs (1998), the exported items that generated the highest value were un-manufactured (raw) tobacco, followed by apples, pears and quinces. Food preparation came third, citrus fruits ranked fourth, then followed potatoes, and lastly, wine.

Data on high value imported products were also indicated; cigars, cheroots, cigarillos and cigarettes ranked first, live bovine animals followed. Cheese and curd ranked third, wheat and muslin came fourth, followed by vegetables, and lastly, sweetened milk and cream.

It is worthy of noting that the total import value exceeded approximately 10 times the export values in 1998 leading to continuous chronic deficit of the balance of trade (Total of Exports-Total of Imports).

Based on these data, Lebanon is far from being regarded as self-sufficient. The agricultural sector, as well as the agro-industry business, should be rebuilt and modernized taking into account their great importance along with their exceptional potential.

IV. METHODOLOGY AND IMPLEMENTATION

SRI has designed two questionnaires (Annexes A and B) in order to assess the performance and evaluate the potentials of the Lebanese Agribusiness industry. The first questionnaire dealt with Export Opportunities in Lebanon, and the second one mainly tackled issues concerning Import Substitution.

Forty-one out of the largest food and beverages processors in Lebanon were first contacted by phone and received the questionnaire by fax. However, only fourteen responded after several attempts. On the other hand 27 fresh market producers, chosen randomly, were interviewed directly in Chouwaifat and the "Vegetable Retail Markets" of Sin-El-Fil and Bir-Hassan.

Six food and beverages processors were presented with the questionnaire on the High Value Export Opportunities, and three responded to the questionnaire dealing with Import Substitutes, each according to its sector of activity. Five out of all interviewees filled both questionnaires. While food and beverages processors responded to the questionnaire by fax, fresh market producers, (only interviewed with respect to the import substitution part of the study), were interviewed face to face. Henceforth, the total number of interviewees in both parts of the study accumulated to a total number of 46.

The data gathered was coded, cleaned, and entered into the computer for analysis, using the SPSS Statistical Package. Frequency distribution and cross-tabulation techniques were conducted to test the relationship between the main variables in general and according to each sector in particular.

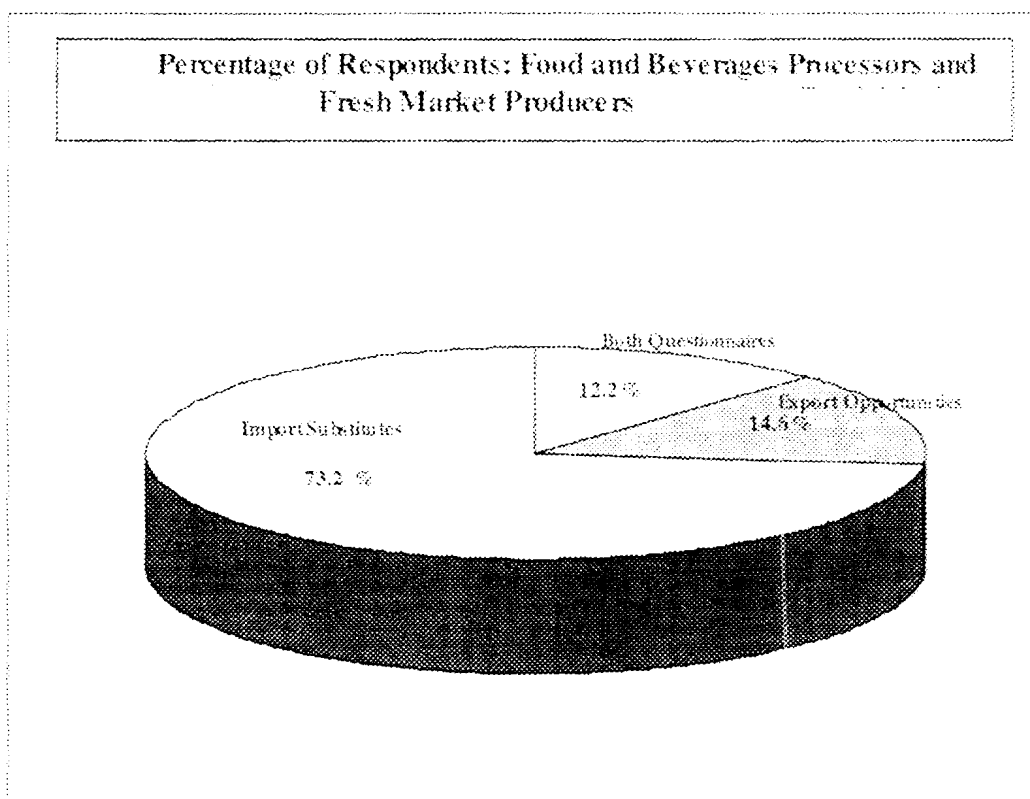
V. RESULTS

The field survey was conducted with the aim of determining the scope upon which exports could be increased and local production intensified, thus entailing a decrease in the importation of commodities. The results of the study shall be approached following two sub-sections:

- A. High Value Export Opportunities
- B. Import Substitutes

Out of the fourteen food and beverages processors, six responded to the export opportunities questionnaire, three responded to the import substitutes questionnaire and five responded to both, whereas all the fresh market producers (27) replied to the import substitutes questionnaire (Figure 1).

Figure 1



A. High Value Export Opportunities

1. General Outlook

Initially, the field survey sample attempted consisted of thirty-eight food and beverages processors of various production sectors. However, only eleven food and beverages processors cooperated and responded. The target of the questionnaire was to assess their export activities. Accordingly, the export products were divided into five sectors: Wine and Arak, Fruits, Food Industry and Trade, Agri-Industry and Trade, and Juices and Ketchup. It is worth noting the distinction between Food and beverages processors and Food Industry and Trade; while the former processes food and beverages only, the latter produces additional items such as soap.

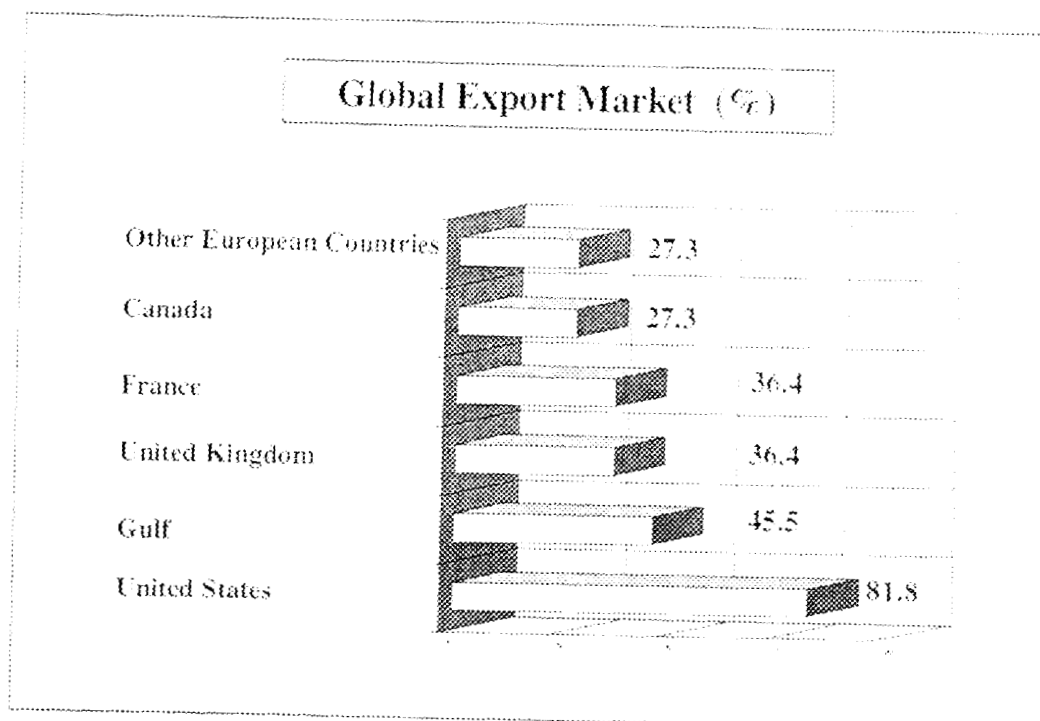
The eleven food and beverages processors, in accordance to their processing and exporting activities, were allocated in the following manner with respect to the above sectors:

- < Two food and beverages processors in the wine and arak sector.
- < One company in the fruits sector; exports included grapes, apples, and oranges.
- < Six food processors in the food industry and trade; produce and export olive oil, olives, tahina, halawa, pickles, jam, canned food, milk products, cooked food, cooked broad-beans, and chick peas.
- < One company in the agri-industry and trade sector; process and exports olive oil, olives, soap, and aromatic water.
- < One company in the juices and ketchup sector.

2. Export Markets

The general export trend according to the general results of the survey, and not the particular sectors mentioned above, indicated that the United States market is the prime export market for Lebanese products with 81.8 %. Following were the Gulf countries with 45.5%; United Kingdom and France with 36.4% each, and Canada and other European countries with 27.3% (Figure 2).

Figure 2



However, according to the Lebanon Opportunities, February, 2000 issue, the Gulf countries (respectively Saudi Arabia and United Arab Emirates) were the prime buyers of Lebanese exports, followed by France, the United States, Syria, Kuwait, Jordan, Switzerland, Germany, United Kingdom and Turkey. The difference between such a perception and the export market rankings (above) could be explained by the activities and limited numbers of food and beverages processors interviewed.

Additionally, in comparing the results of the survey to the statistics of the Directorate of Customs (1998, and illustrated in Table 2), the United States being the most frequented market is explained since in all the sectors, the USA is usually ranked relatively high.

With respect to the agricultural products sector in particular, as exhibited in Table 1a to 1e (survey results), and compared to those shown in Table 2 (data from the Directorate of Customs 1998), it was found that:

- ✦ Wine and Arak are mostly exported to France and United Kingdom (25% for each) followed by Belgium and Luxembourg, Japan and the United States (12.5%). This result is enforced by the figures of the Directorate of Customs (1998).

- ✧ Fruits including apples, grapes and oranges are mainly exported to the Far East (75%) (Japan, Singapore, Indonesia at a percentage of 25 each) and United Kingdom (25%). However, such results did not accord with the data from the Directorate of Customs, whereby it was found that oranges and grapes were largely exported to Saudi Arabia and apples to Libya.
- ✧ Food Industry and Trade products are exported to the United States (33%), Canada (22%), the Gulf countries, France, Sweden and other European countries, Egypt, Yemen, and other African countries at a similar figure of 5.6%. Not conforming to the survey results, data from the Directorate of customs indicated that Saudi Arabia is the prime export market of Food Industry and Trade commodities, followed by Germany, United States and Canada.
- ✧ Agri-Industry and Trade products are exported to the United States and France (50% equally). In terms of Food Industry and Trade, the same countries were reported in the Directorate of Customs, but with respect to soap processing, unlike the survey results, Saudi Arabia was the most important export market.
- ✧ Juices and Ketchup are exported to the United States, the Gulf countries, Europe, and Australia (25% for each) according to the survey results. However, this company produced some products that were not included among the commodities of the Directorate of Customs.

Table 1a. Export Markets and Percentage According to the Sectors: Wine and Arak

Commodity	Country	Percentage
America	United States	12.5
Asia	Japan	12.5
Europe	Belgium	12.5
	Luxembourg	12.5
	France	25
	United Kingdom	25

Table 1b: Fruits

Commodity	Country	Percentage
Asia	Indonesia	25
	Japan	25
	Singapore	25
Europe	United Kingdom	25

Table 1c: Agri-Industry and Trade

Commodity	Country	Percentage
America	United States	50
Europe	France	50

Table 1d: Food Industry and Trade

Continent	Country	%
Africa	Egypt	5.6
	Yemen	5.6
	Other African Countries	5.6
America	Canada	22
	United States	33
Asia	Gulf Countries	5.6
Europe	Denmark	5.6
	France	5.6
	Sweden	5.6
	Other European Countries	5.6

Table 1e: Juices and Ketchup

Continent	Country	%
America	United States	25
Asia	Gulf Countries	25
Oceania	Australia	25
Europe	Different Countries	25

Table 2: Export Products and Markets According to the Directorate of Customs (1998)

Export	Country	US\$ (1000 Million)
Wine and Arak	United Kingdom	3898
	France	2217
	Canada	351
	USA	344
	Japan	387
Fruits	Libya	15243
	Saudi Arabia	9271
	Saudi Arabia	3024
Food Industry and Trade	USA	602
	Canada	334
	Germany	156
	Saudi Arabia	3028
Agri-Industry and Trade	USA	602
	Canada	334
	Germany	156
	Saudi Arabia	3028

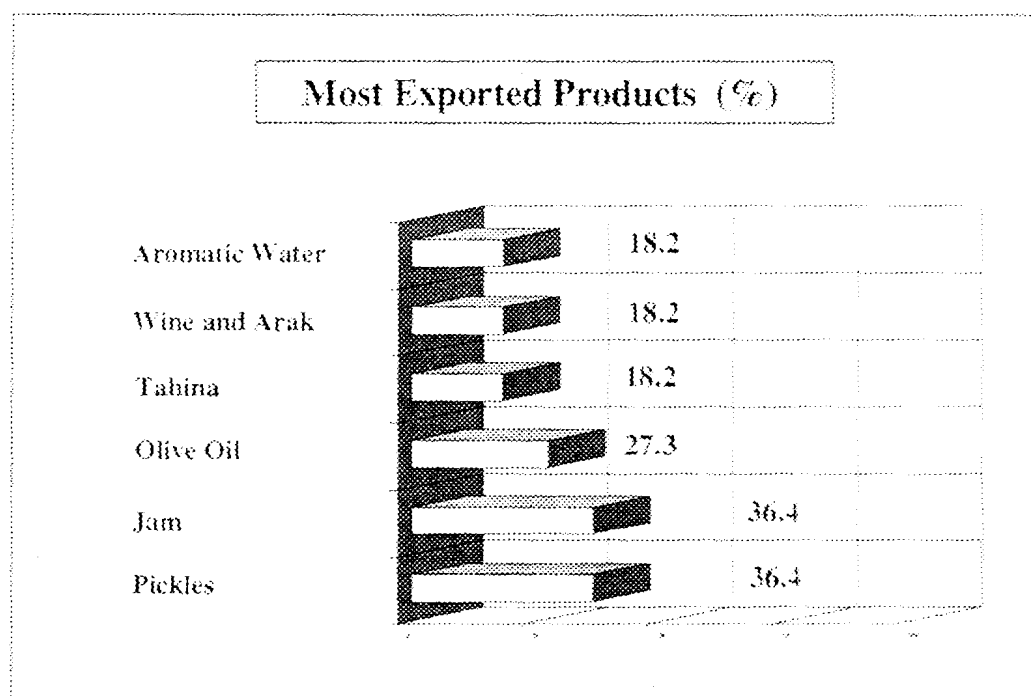
A: Countries are chosen according to the amount of export sales
B: The US Dollars change was around 1500 L.L. in 1998.

3. Export Products

With respect to the survey results, pickles and jam ranked first among the exported products with 36.4% respectively. Olive oil exportation was rated second with 27.3%, followed by tahina, wine and arak and aromatic water with 18.2% (Figure 3).

However, data from the Directorate of Customs (1998) did not conform to the above findings, most probably due to the relatively limited number of respondent export companies among other reasons. Accordingly, data from the Directorate of Customs indicated that un-manufactured (raw) tobacco is the prime export commodity, followed by apples, pears and quinces, third came processed food, citrus fruits ranked fourth, and lastly wine.

Figure 3

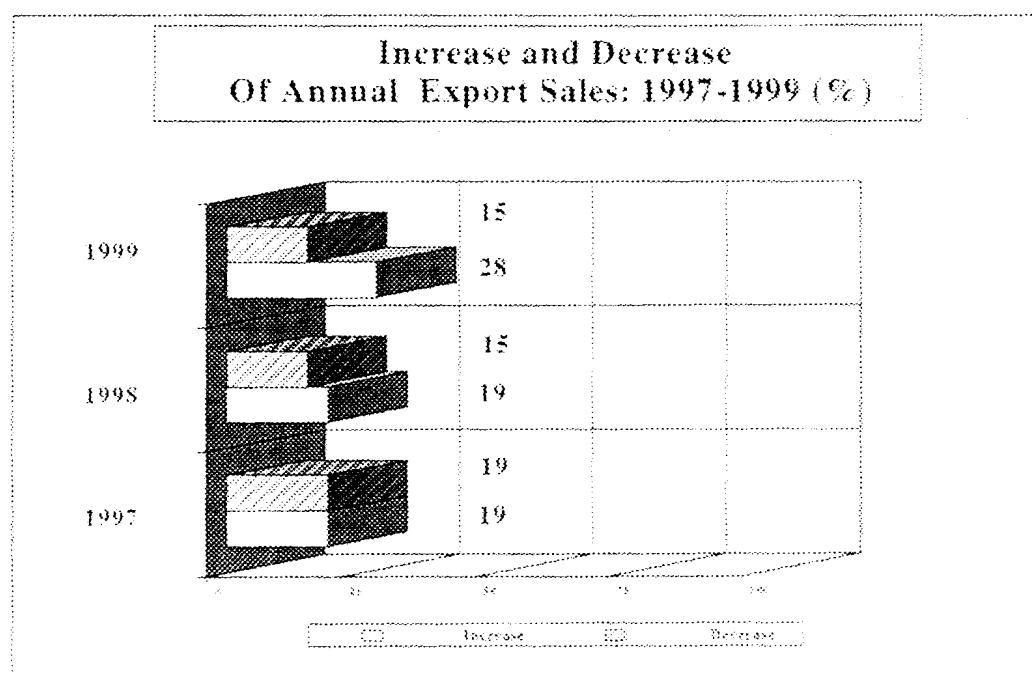


4. Annual Sales

The total amount reported on the annual export sales is approximately \$17,855 000, with an average estimate of \$2 100 000. However, it is important to note that close to 18% of the respondents did not report their annual export sales. In terms of the value of exports versus the value of local consumption, the total amount of export sales of the five food and beverage processing companies (that responded to both questionnaire) is \$8,555 000 versus \$ 14,000,000 corresponding to the total amount of domestic sales (hence, more that half the total sales is a result of exports). While comparing the local and export products of these food and beverages processors, it was found that most commodities that are produced for local consumption are also produced for exportation, with some exceptions such as soap which is only exported, and salt intended solely for local consumption.

The majority of food and beverages processors, seven out of eleven, stated that their export sales were increasing by approximately 63.7%. On the other hand, the remaining four food and beverages processors declared a decrease in export sales of 36.4%. During 1997, the fluctuation of export sales of the different food and beverages processors equaled 19%, in 1998, the figure of increase in export sales was 19% and that of decreasing export sales equaled 15%. In 1999, the increase in reported export sales was 28% and the decrease was estimated at 15% (Figure 4). Accordingly, the responding food and beverages processors expect their export sales to augment in the future: nine out of eleven food and beverages processors (81.8%) estimate such an increase.

Figure 4



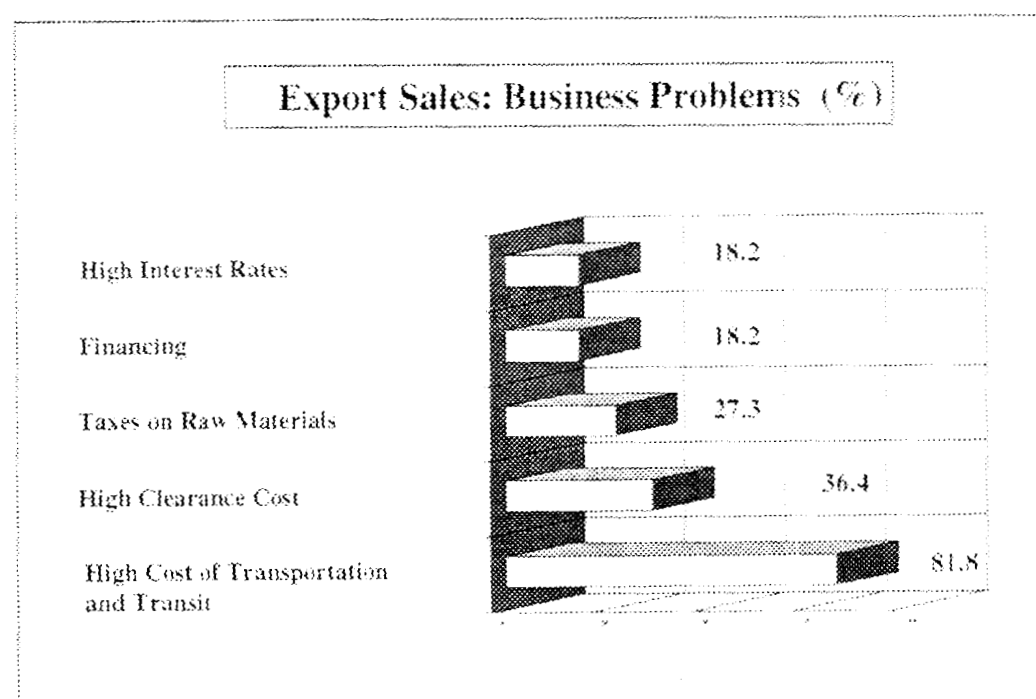
5. Export Sales Problems

In accordance with the survey results, it could be asserted that Lebanese food and beverages processors face several obstacles regarding exportation. Such problems are of two origins, (illustrated in Table 3a and b), namely, business oriented and policy oriented.

a. Business Problems

Four major business problems confront the five sectors. Accordingly, the high costs of transportation and transiting are the most important constraints (81.8%) along with the interrelated obstacles they entail. Secondly, high clearance costs pose a major problem (36.4%), as do taxes on raw materials (27.3%) and financing and high interest rates (18.2%) (Figure 5).

Figure 5



In addressing each sector individually, other specific constraints were reported. The Wine and Arak sector is confronted by the following obstacles: a lack of regulations (20%), an absence of public service interest (20%), and a gap in the governmental law regarding the production of wine and arak (20%). The Fruit export sector stated that it faced problems regarding availability of quality fruits produced in Lebanon as well as, market uncertainties (25% for each).

The Food Industry and Trade sector confronts many problems each with a figure of 6.7%, namely, competition, protection measurements undertaken by some countries, a lack of public service interest, a demand for a better quality of products, local consumption of Lebanese products, and export to Mediterranean markets. Finally, concerning the Juices and Ketchup sector, high cost of formalities and legalization (25%) as well as a lack of raw material (25%) (fruit juice concentrate) pose major problems.

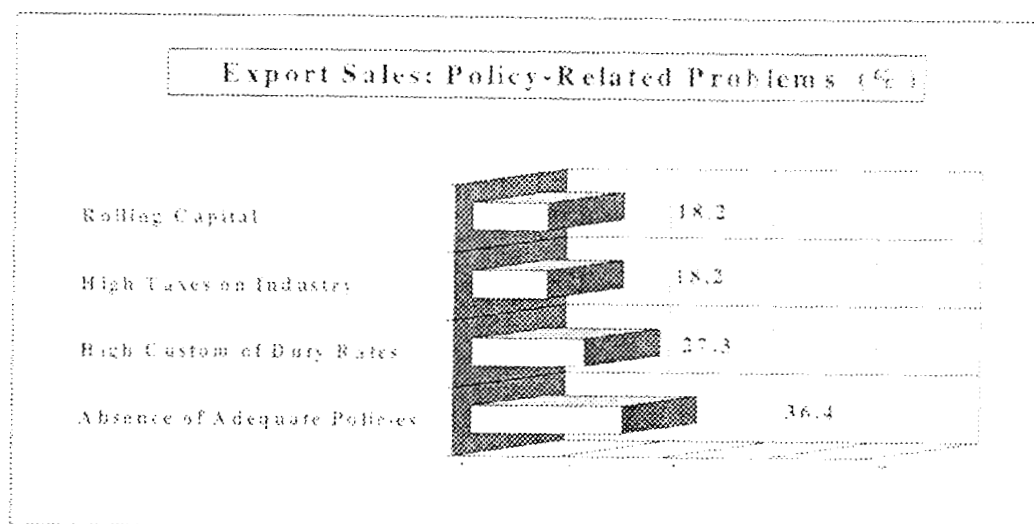
Table 3a: Problems Facing the Expansion of Export Sales in Accordance to Each Sector: Business Oriented Problems

Sector	Problems	
Wine and Arak	Lack of Regulation Vacancies	20
	Lack of Public Service Interest	20
	Government Law Regarding Wine and Arak Production	20
Fruits	Lack of Availability of Fruit Quality Produced in Lebanon	25
	Market Uncertainties	25
Food Industry and Trade	Competition	6.7
	Protection Measurements Undertaken by Some Countries	6.7
	Lack of Public Service Interest	6.7
	Lack of Demand for Higher Products Quality	6.7
	Local Consumption of Lebanese Products and Main Exports To Mediterranean Markets	6.7
	High Cost of Formalities and Legalization	25
Juices and Ketchup	Lack of Raw Materials	25

b. Policy-Related Problems

More than one third of the respondents revealed that the absence of adequate policies aiding industrialists and processors are among the major policy-related constraints. Other major problems relate to high custom duty rates (27.3%), in addition to high taxes on industry and rolling capital with a rating of 18.2% (Figure 6).

Figure 6



With respect to the specific sectors, other constraints were indicated. The Wine and Arak sector is opposed to the partnership with the European Union (EU) and complains of a lack of data with reference to that agreement. Additionally, the sector faces problems with respect to administrative pestering (25%). The Fruits sector faces a lack of low interests loan and an absence of discipline among exporters, as well as irregular flights to some destinations (25%). The Food Industry and Trade sector specified several hindrances, all of equal importance (7.7%); the relatively small size of the firm's surface, an increase in domestic demand, the low export profits, the lack of bilateral agreements, and a deficiency of incentives for export. Finally, with respect to the Juices and Ketchup sector, a lack of high tech Agri-business projects (33%) lay as a major problem.

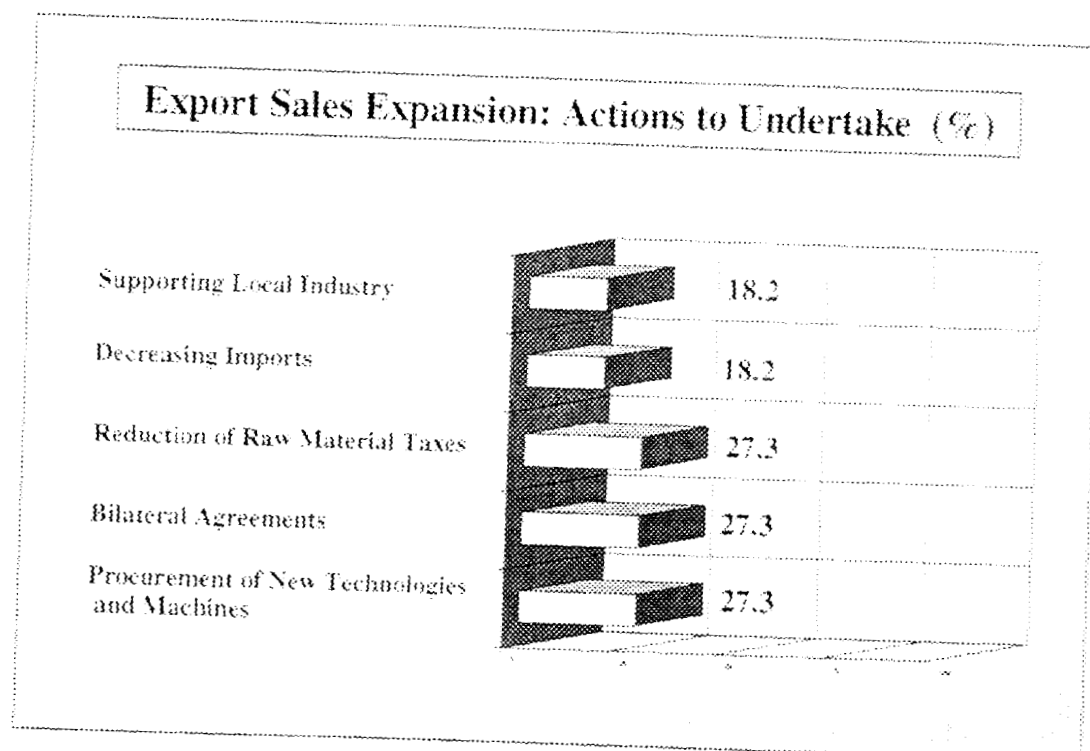
Table 3b: Policy-Related Problems

Sector	Problems	%
Wine and Arak	Lack of Data	25
	Lack of Partnership with Europe	25
	Administrative Pestering	25
Fruits	Lack of Low Interest Loans	25
	Lack of Discipline Among Exporters	25
	Irregular Flights to Some Destinations	25
Food Industry and Trade	Small Size of Firm's Surface	7.7
	Increase in Local Demands	7.7
	Low Export Profits	7.7
	Lack of Bilateral Agreements	7.7
	Lack of Incentives for Exportation	7.7
Juices and Ketchup	Lack of High-Tech Agri-Business Projects	33

6. Actions for Expanding Export Sales

The eleven food and beverages processors proposed a series of actions that could be undertaken in order to expand and improve their export sales. Three actions were found to have the same importance (27.3%): first, the acquisition of new technologies and machines, second, the signature of bilateral agreements, and third, the reduction of taxes on raw material. An additional recommendation was to reduce imports and support the local industry (18.2%). The above stated actions are illustrated in Figure 7.

Figure 7



Regarding each particular sector, other specific actions were cited. With respect to the Wine and Arak sector all suggestions were of equal importance (12.5%); these included taking measures in avoiding administration obstacles, securing accurate data, setting the national institute for "L'appellation contrôlée" (control of standardization criteria), stabilizing prices, improving quality, and issuing a law regarding wine production. The major actions suggested by the Fruits sector were the establishment of a new storage and controlled atmosphere system (25%), and the provision of low interest loans (25%).

The Food Industry and Trade sector recommended the following actions (each with a figure of 9.1%): searching for export agents, expanding the surface of work, accepting the export of new brands, reducing exportation costs, and removing all barriers on movement of raw material from Syria. The Agri-Industry and Trade sector suggested that the transportation and transiting problems should be addressed. The Juices and Ketchup sector recommended the promotion of Lebanese goods through representatives abroad (25%). All the suggested actions are presented in Table 4.

Table 4: Actions in order to Expand Export Sales According to the Sectors

Sector	Actions	Value
Wine and Arak	Avoiding Administration Obstacles	12.5
	Securing Accurate Data	12.5
	Setting the National Institute for "L'Appellation Contrôlée"	12.5
	Stabilization of Prices and Quality Improvement	12.5
	Issuing the Wine Producing Law	12.5
Fruits	Establishment of New Cold Storage and Controlled Atmosphere System	25
Food Industry and Trade	Providing Low Interest Loans	25
	Searching for Export Agents	9.1
	Expansion of Work Surface	9.1
	Acceptance of New Exports	9.1
	Reduction of Exportation Costs	9.1
	Removal of all Barriers on Movement of Raw Materials from Syria	9.1
Agri-Industry and Trade	Solving Transportation and Transit Problems	33
Juices and Ketchup	Lack of High Tech Agri-Business Projects	25

7. Export Sales Expansion

With respect to the production of potential products for export markets, only four food and beverages processors were able to respond. The remaining seven stated that potential products were not within their scope of activities. Accordingly, the potential products for export markets stated by the food and beverages processors were closely linked to what they already produced. These include grape seedlings, frozen or canned fruits and vegetables, as well as dried fowl and milk products.

The Middle Eastern market is a major target since it has not yet been exploited. However, it is worth noting that a few constraints confront a new production and merchandizing policy. Such constraints are greatly related to the ones mentioned earlier, namely high costs, and thus, high prices of Lebanese products. This is the result of, first, long-term investment (needs for low interest loan), and second, excessive production costs in Lebanon (16.7%). Thereafter, such high costs of production entail relatively lower prices of commodities in neighboring countries: the Middle East (the target market for Lebanese exports).

B. Import Substitutes

1. General Outlook

The import sector in Lebanon is large and well-developed. Conformably, imported products are not solely the ones that are unavailable locally, but also include products similar to domestically produced items. The goal of this part of the study was to determine whether the vast quantities of imports could be reduced, and whether this could be achieved by increasing local production and diversifying the nature of local products. However increasing local production can not be easily realized. Many constraints revealed below are encountered by the surveyed fresh market producers (27) and food and beverages processors (8). It is important to note at this stage that since the study was conducted in winter, the results were notably influenced due to the fact that cultivation is greatly dependent on seasonal changes; in winter, only certain types of leafy and fleshy vegetables are cultivated.

Similar to the section on exports, fresh market producers and food and beverages processors are divided into five sectors: Vegetables and Fruits, Wine and Arak, Food Industry and Trade, Poultry, and the Agri-Industry and Trade.

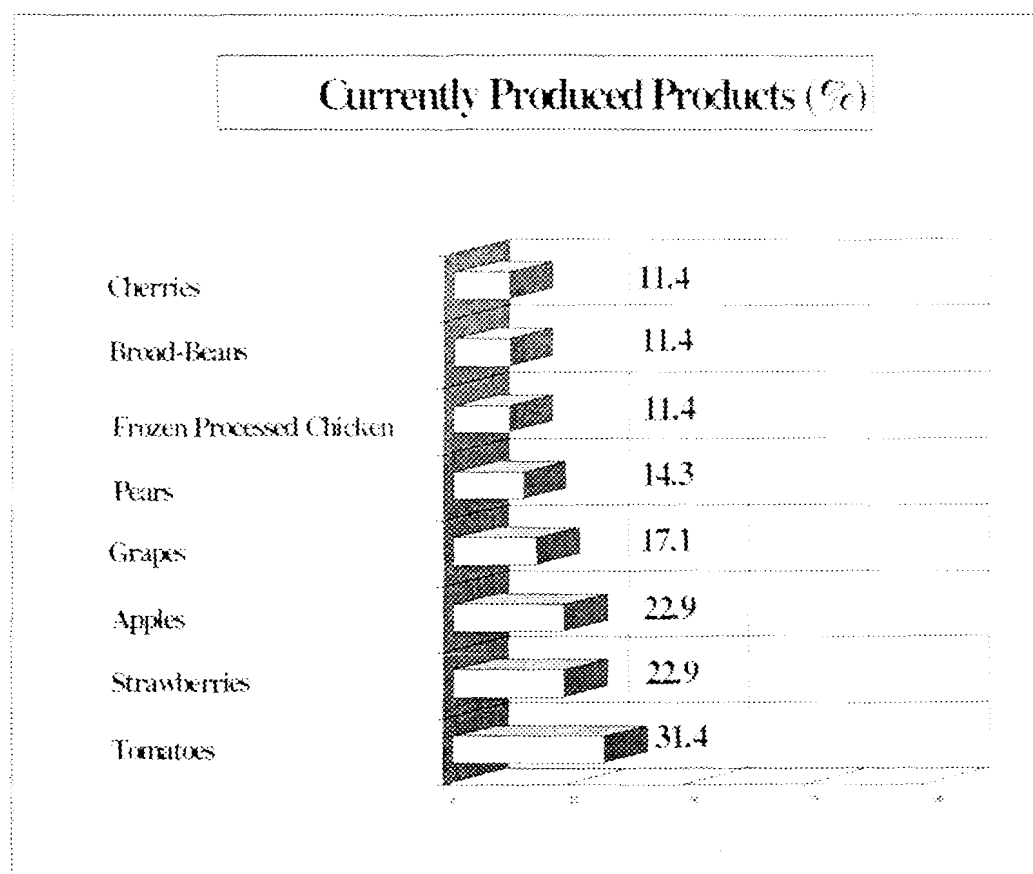
- ◀ The Vegetable and Fruits sector included 27 fresh market producers subdivided to comprise the following: vegetables, tubers and cereals, cereals and vegetables, fruits, as well as citrus and vegetables.
- ◀ Two processors represent the Wine and Arak sector.
- ◀ Two food processors comprised the Food Industry and Trade sector.
- ◀ Poultry is represented by three food processors.
- ◀ Only one company represented the Agri-Industry and Trade.

2. Products and Distribution Markets

According to the survey results in general, independent of the above sectors, tomatoes ranked first (31.4%) among the agricultural products, followed by strawberries and apples (22.9%), grapes (17.1%), pear (14.3%), frozen processed chicken, broad-beans (11.4%), and cherries (11.4%) illustrated in Figure 8.

It is essential to point out that the above results are in conformity with those of the General Census implemented and edited by the Ministry of Agriculture (Results of Research about Agricultural Production, 2000).

Figure 8



With regard to the five sectors mentioned above, the ranking of products differed slightly as is depicted in Table 5a to 5e.

Table 5a: Ranking Percentages of Products According to the Sectors:
Vegetables and Fruits

Product	Percentage (%)
Tomatoes	11.8
Strawberries	8.6
Apples	8.6
Grapes	6.4
Pears	5.4
Broad-Beans	4.3
Cherries	4.3
Eggplants	4.3

Table 5b: Wine and Arak

Products	%
Wine and Arak	100

Table 5c: Food Industry and Trade

Products	%
Broad-Beans	12.5
Olives	12.5
Olive Oil	12.5
Pickles	12.5
Vinegar	12.5
Chickpeas	12.5
Aromatic Waters	12.5
Dip Jam	12.5

Table 5d: Poultry

Products	%
Fresh Chicken	25
Frozen Processed Chicken	12.5
Fresh and Further Processed Chicken	12.5
Day Old Chick	12.5
Poultry Feed	12.5
Table Eggs	12.5
Animal Feed	12.5

Table 5e: Agri-Industry and Trade

Products	%
Olives	25
Olive Oil	25
Salt	25
Orange Flower	25

Statistics from the Directorate of Customs (1998) indicate that these local products are mostly exported. Unfortunately, identical commodities are imported from other markets and are often strong competitors to domestic produce (Table 6).

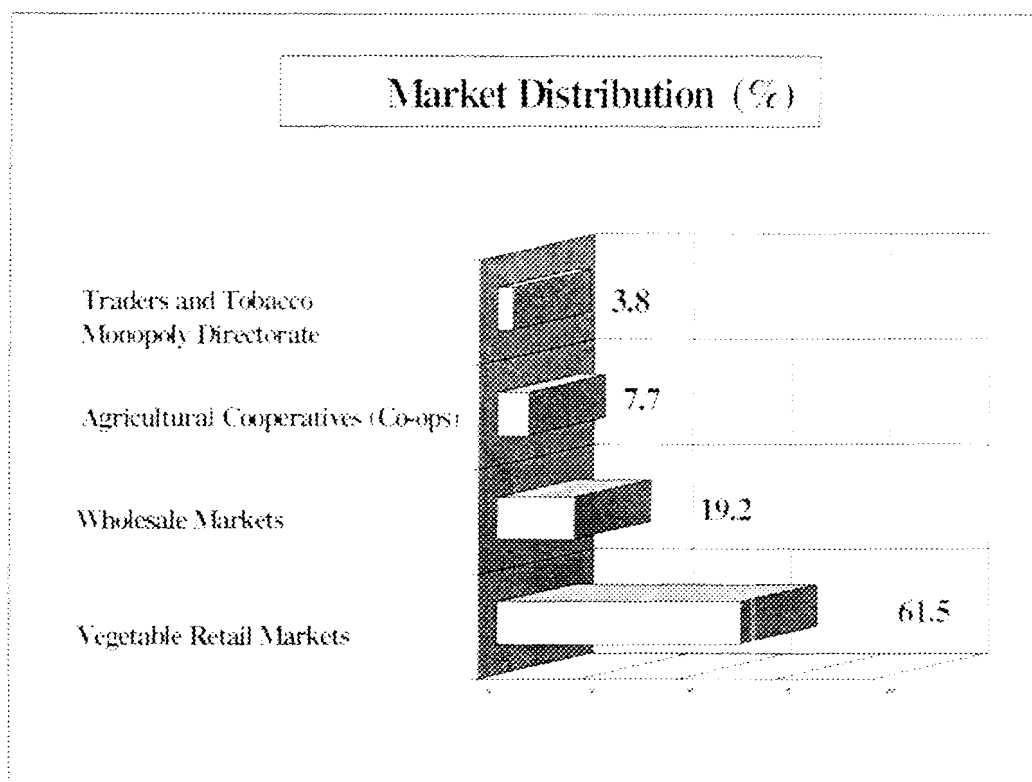
Table 6. Import and Export Countries According to the Directorate of Customs

Commodities	Country of Import ^A	Value (L.L. Million)	Country of Export ^A	Value (L.L. Million)
Apples			Libya	15243
			Egypt	2600
Grapes			Saudi Arabia	2140
			Kuwait	278
Pears			Saudi Arabia	236
			Egypt	58
Strawberries	France	9	Saudi Arabia	2
Tomatoes	Saudi Arabia	12	United Arab Emirates	3
	Egypt	4	Germany	2
	Syria	440	Kuwait	1
Broad-Beans			Germany	1

A: Countries were chosen according to the highest and lowest export or import value

The products illustrated above are mainly distributed to the following local markets: vegetable retail markets (61.5%), wholesale markets (19.2%), agricultural cooperatives (Co-ops) at 7.7%, and to traders and the Tobacco Monopoly Directorate (3.8%). These figures are illustrated in Figure 9.

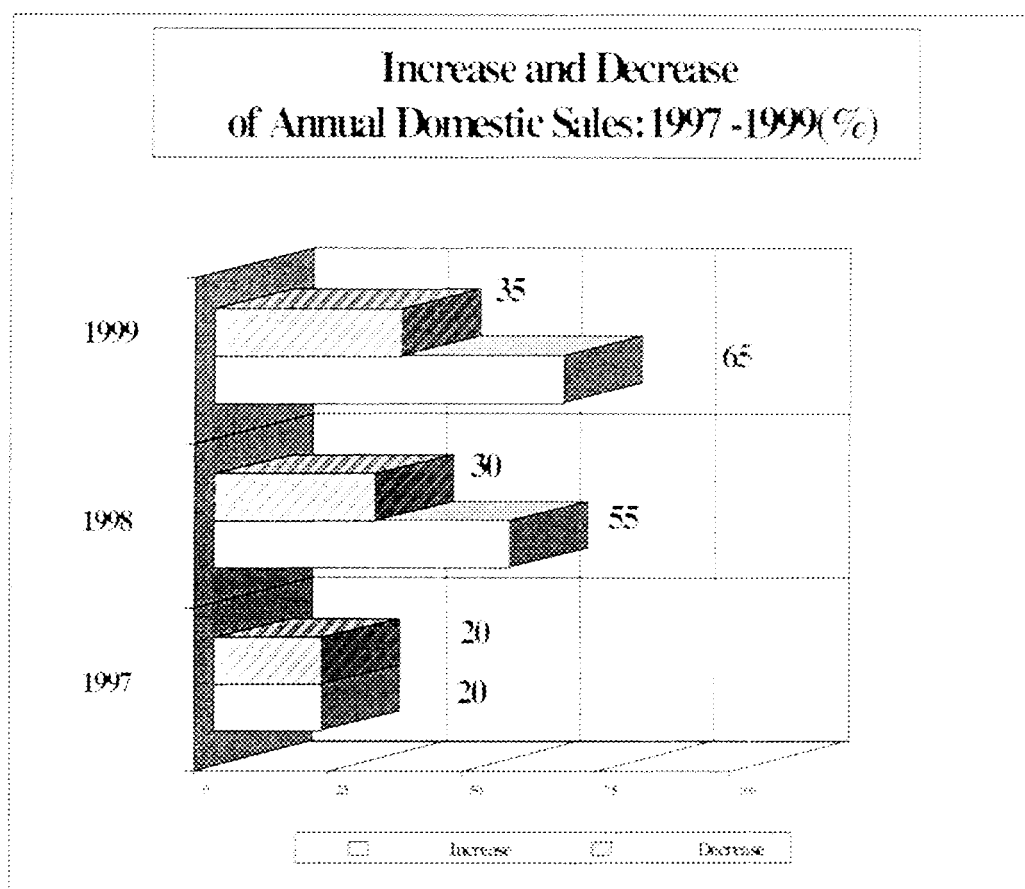
Figure 9



3. Annual Domestic Sales

The total domestic sales of the eight food and beverages processors was estimated at \$34,000,000 with an average of \$5,000,000 per year, and those of fresh market producers totaled approximately \$1,659,327 with an average of \$66,000. More than half the surveyed fresh market producers and food and beverages processors stated a decrease in their domestic sales. During 1997, domestic sales remained relatively stable in comparison to 1996. In 1998, growth was reported at 55% versus 30% decrease. While in 1999, the increase of domestic sales reached 65% and that of decrease neared a figure of 35% (Figure 10). With the respect to future forecasts, 60% of responses indicated an expected increase in domestic sales.

Figure 10



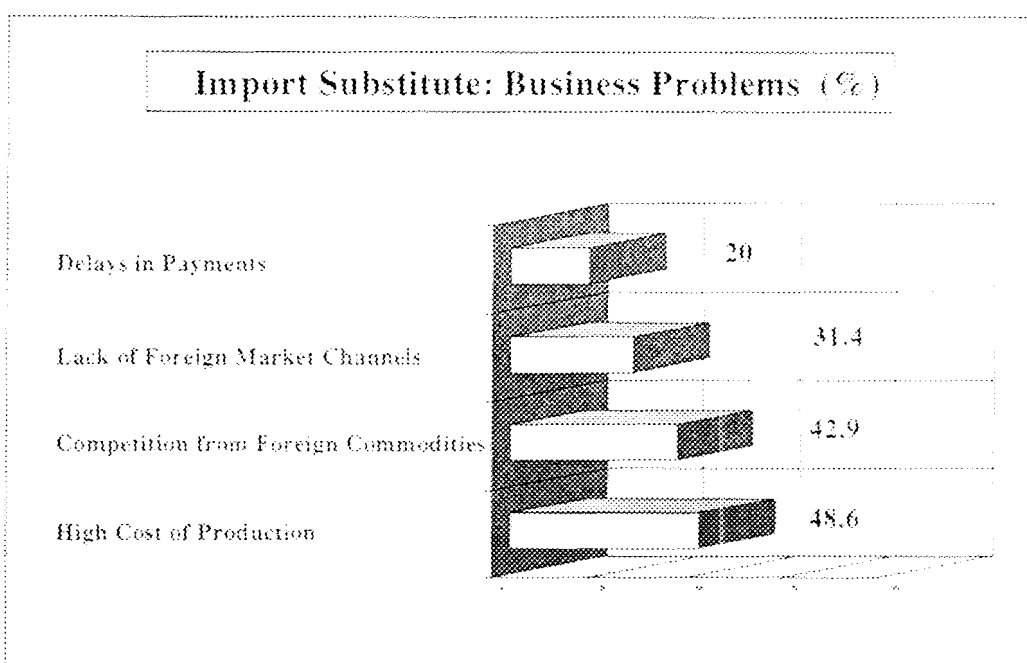
4. Problems of Domestic Sales Expansion

Similar to the section on exports, an attempt to increase domestic sales and local production is sought by several food and beverages processors and fresh market producers. And likewise, such attempts are confronted by various constraints also categorized as business and policy oriented. Following is an assessment of the obstacles faced within each category and a clear indication is provided in Tables 7a and b.

a. Business Problems

Among the major business problems is the high cost of production (48.6%), followed by the competition between imported commodities and local products (42.9%), the lack of foreign market channels (31.4%), and lastly, delays in payments (20%) (Figure 11).

Figure 11



Regarding the specific sectors, additional business problems were encountered. The Vegetables and Fruits sector faces the problem of forced price reductions of its agricultural products (8.1%).

According to the Food Industry and Trade sector, the economic recession (20%), the saturation of the sector, and the governmental taxation laws (20%) pose major problems. In terms of Poultry products, the dominant constraints relate to the illegal smuggling of chicken from Syria (22.22%) and the imposed price ceiling by Ministry of Economy and Trade (11.11%). The Agri-Industry and Trade sector is confronted by high interest rates on loans (33.33%).

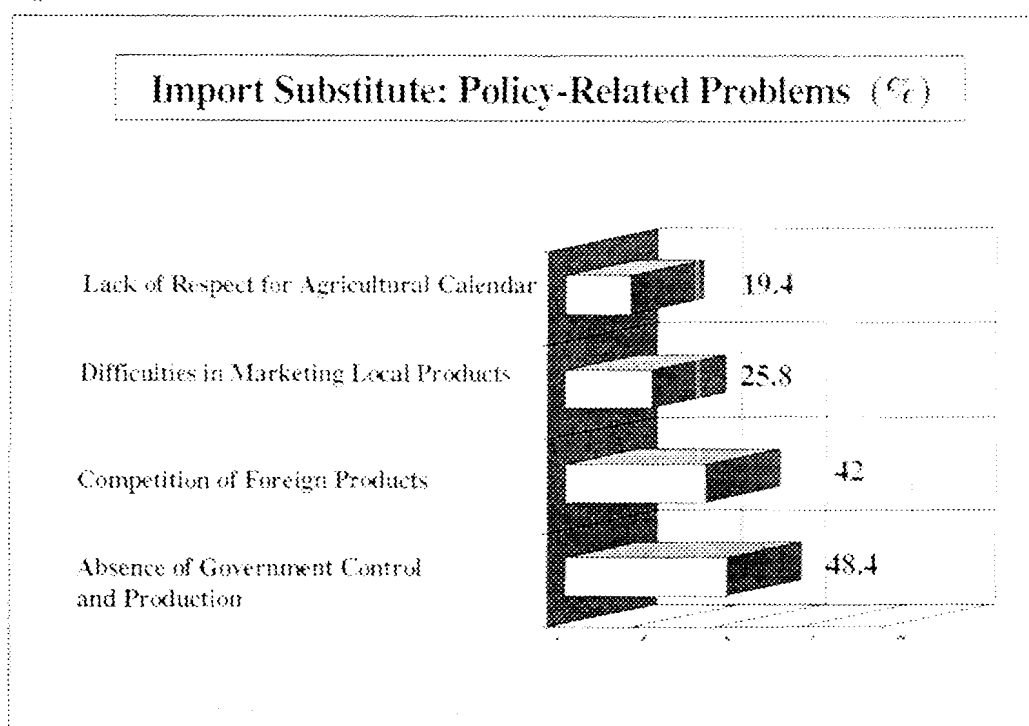
Table 7a: Problems Faced by Fresh Market Producers and Food and Beverages Processors in Accordance to the Sectors: Business Problems

Vegetables and Fruits	Price Reductions of Agricultural Products	8.1
Food Industry and Trade	Economic Situation	20
	Over Capacity of the Sector	20
	Government Taxation Laws	20
Poultry	Illegal Smuggling	22
	Imposed Price Ceiling	11
Agri-Industry and Trade	High Bank Interests	33

b. Policy-Related Problems

The absence of governmental control and protection of domestically produced goods is the most important problem faced (48.4%). Second, and related, is the competition from foreign products (42%). Third are problems regarding the difficulties of oversupply and of marketing of local products (25.8%). Finally, the lack of an agricultural calendar rated fourth with 19.4% (Figure 12).

Figure 12



Regarding the Vegetables and Fruits sector, an oversupply of domestic production was among the major problems cited (9.9%). It is important to note however, that imports of products similar to these are indirectly forced into the market (as part of an exchange agreement), and despite the supply of domestic products these imports are consumed (in many cases due to lower prices). The Food Industry and Trade sector stated that as a result of individual plantation and processing of olive oil, an increase in domestic sales is limited (100%).

The poultry sector declared that price ceilings imposed by the Ministry of Economy and Trade were the major reason for being unable to increase domestic sales (33.3%), as well as a lack of investment support (16.7%) and other governmental regulations (16.7%). Concerning the Agri-Industry and Trade sector, a lack of clear agricultural policies was the dominant constraint faced (100%).

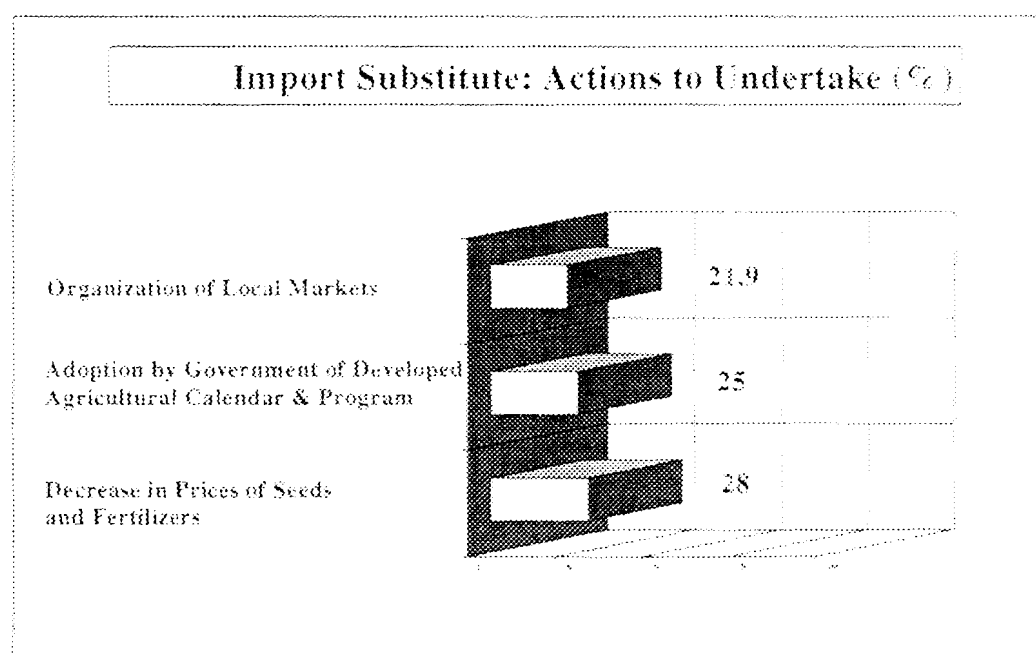
Table 7b: Policy-Related Problems

Sector	Problems	%
Vegetables and Fruits	Oversupply of Domestic Products	6.9
	Planting and Extraction of Domestic Olive Oil	100
Food Industry and Trade	Lack of Improvement of Price Ceiling	35
	Lack of Investment Support	16.7
	Lack of Governmental Regulations	16.7
	Lack of Clear Agricultural Policies	100
Agri-Industry and Trade		

5 Actions for Expanding Domestic Sales

Despite the above mentioned constraints, fresh market producers and food and beverages processors suggested a list of actions that could be pursued to expand their domestic sales. The four major actions are listed in order of importance: reduction of prices of seeds and fertilizers (28%), adoption of a developed agricultural calendar and program by the government (25%), and organizing local markets (21.9%). It is worth noting that 43.8% of the respondents suggested the creation of new export markets to enhance their domestic sales. However, this action was not included as part of the suggested initiatives since creating export markets will increase the total sales and not only domestic sales as was requested. A clear indication is illustrated in Figure 13.

Figure 13



Additionally, each sector presented specific actions related to its products (Table 8). The Vegetables and Fruits sector suggested the elaboration of food packaging (7.2%) and the encouragement of local projects (7.2%). The Wine and Arak sector viewed the improvement of Lebanese laws regarding their productions as an important action to be undertaken (100%). The Food Industry and Trade sector recommended the expansion of production and an increase in the number of workers (50%). The Poultry sector proposed the following: the control of illegal importation, well studied price ceilings, quality protection, improvement of prices, cost reductions, long-term loans to update means of production and distribution, enforcement of adequate licensing for production which would cater for the actual needs of the market (14.2% for each). Finally, the Agri-Industry and Trade sector suggested cost reductions (33%) and the provision of agricultural credits with low interests (33%).

Table 8: Actions Required to Expand Domestic Sales in Accordance with Each Sector

Sector	Actions	%
Vegetables and Fruits	Elaboration of Food Packaging	7.2
	Encouragement of Local Project	7.2
Wine and Arak	Improving Lebanese Laws	100
Food Industry and Trade	Expansion of Production and Number of Workers	50
Poultry	Control of Illegal Importation	14.2
	Well Studied Price Ceiling	14.2
	Quality Protection	14.2
	Price Improvement	14.2
	Cost Reduction	14.2
	Long-term Loans	14.2
	Enforcement of Adequate Licensing for Production	14.2

6. Product Unit Price

The unit price of a locally produced product with respect to its competitor (imported products) varies from one product to another. In general, it has been indicated that the prices of competitive imports are lower than the prices of local products, sometimes even less than half the price. However, there are exceptions. The prices of local mushrooms, broccoli and sweet pepper are lower than the prices of imports (Table 9).

Table 9: Average Local Price per Production Unit (kg) with Reference to the Prices of Imports

Product	Unit Local Price (\$)	Unit Importing Price (\$)
Mushroom	4	7
Sweet pepper	2.6	6.5
Broccoli	2	6
Peach	1.25	0.65
Grape	0.49	0.33
Cherry	0.8	0.45
Pear	0.8	0.5
Citrus	0.2	0.1
Okra	1.6	1
Broad-Beans	0.13	0.06
Potato	0.3	0.2
Watermelon	0.2	0.13
Strawberry	2	1.4
Case of Eggs (30)	15	13

7. Agricultural Operations

The responses with respect to agricultural operations varied. In some cases the operations were viewed as strengths (type of land, know-how, technology) and in other cases they were perceived as weaknesses (cost of raw materials, access to market, marketing information). The only operation that was perceived as an advantage by all was the know-how of labor (Table 10).

Table 10: Biggest Strength / Weakness of the Different Agricultural Operations

Type of Land	25	5	80	14.3
Know-How	35	0	100	0
Technology	24	10	68.6	28.6
Labor Productivity	19	16	54.3	45.7
Costs of Inputs	8	26	22.9	74.3
Access to Water	16	17	45.7	48.6
Access to Market	9	25	25.7	71.4
Marketing Information	8	26	22.9	74.3

* Some data are missing.

8. Cost Structure

With respect to the cost structure of the two most important products, responses varied greatly. In general, it could be asserted that the greatest cost of all productions was that of inputs (Table 11).

Table 11: Breakdown of the Cost Structure of the Top Two Products

Cost	Percentage Average*
Land	25
Labor	25
Inputs	25
Transports	10
Marketing/Management	15

* The average percentage is calculated according to survey results obtained for each cost structure independently.

9. Additional Products

In general, it was stated that additional products for the domestic market could be produced. Specifically, the following products were suggested: sophisticated sausage line, foreign dairy products, papaya, luncheon meat, sauces, frozen fried products, mozzarella cheese, and other processed products. Accordingly, it was perceived that these products could be sold to high- and low-income supermarkets, restaurants, fast food chains, and caterers, as well as, food services. Additionally, it was indicated that the products currently produced could be processed at a larger quantity.

However, as a consequence of external competition (imports) and limited potential (35.5%), the introduction of new products and the expansion, in terms of quantity, of existing products can not be accomplished. Further reasons include a lack of governmental support for local production (9.7%), high cost of investment and a need for a bigger production area (6.5%). Nonetheless, it is worthy of noting that some fresh market producers and food and beverages processors did not respond because increasing production and expanding its nature does not fall within their frame of activities.

VI. RECOMMENDATIONS

In terms of export sales and domestic sales the field survey results indicated that, in general, local sales were greater than export sales. This trend was reinforced by the food and beverages processors who responded to both questionnaires. Accordingly, their local and export commodities were almost the same. Nonetheless, their local sales were more important. This could be explained by the trend of work and type of products that are in greater demand by local markets than foreign markets. Additionally, two business-oriented constraints were reported which correspond to lower exports, and thus, increase the importance of local sales, namely high costs of clearance and high costs of transportation. In part, such exceptionally high costs are often assumed to be the outcome of corrupt practices entailing bribery to ensure clearance and other related procedures. Among the policy-oriented hindrances, the lack of adequate policies also promotes production for domestic markets and less incentives to export. Such policies include the lack of bilateral agreements, of professional agribusiness projects to produce competitive commodities, and an absence of government subsidies. Based on these facts, the export sector in Lebanon still requires decisive steps and initiatives in order to expand and evolve.

The survey revealed that Lebanese fresh market producers and food and beverages processors have been encountering several obstacles regarding import substitution and exportation. Henceforth, a series of actions was suggested that could be conducted in an attempt to expand and improve their annual domestic sales as well as export sales.

The actions reported in the 46 questionnaires revolved around the organization and creation of new local and export markets, the reduction of prices and taxes, and the adoption of a developed program (agricultural calendar, bilateral agreements). Thus, the incitement and intervention of the government is essential for the accomplishment of all these actions. Many policies are proposed by the government and could be summarized in a two-fold manner:

1. Achievement of a profitable and sustainable agricultural production based upon the following:

- < Enhancing the Lebanese foreign exchange balance by increasing agricultural exports, through substitution and competitive products, as well as increasing the output of agricultural production
- < Intensifying production and productivity of strategic crops
- < Reducing dependency on imported principal commodities
- < Improving food processing to increase value added from the agricultural sector.

B. Development of the Agrofood industries inherent to the following areas:

- ◀ Providing capital and credit for processing enterprises
- ◀ Introducing modern technologies
- ◀ Increasing specialized staff and the number of workers
- ◀ Reducing the cost of raw material
- ◀ Opening and creating new export markets
- ◀ Increasing level of exportation
- ◀ Encouraging investments for exportation
- ◀ Implementing legal agreements and protocols.

Among the various policies adopted by the Ministry of Agriculture is that of adopting an agricultural calendar for the exportation and importation of commodities. However, as was indicated by the survey results, such a calendar has not been able to fulfill its objectives; it is not fully applied and it does not assimilate the cultivation period of Lebanese crops. Furthermore, it appears that despite its adoption, the process of implementation retains a cleavage. Along the same lines, the oversupply of agricultural commodities and their marketing seem to be additional serious problems facing Lebanese fresh market producers and are also related to the agricultural calendar policy. Accordingly, identical products to some locally produced commodities are imported (as was shown in Table 5). Henceforth, the government, through a more accurate export/import policy, could reduce the problem of oversupply as well as severe competition from imports. Importing potatoes from Egypt is one example. Such importation starts on the 1st of February, however, by that date, Lebanese potatoes would not have been completely disposed. Such importation is the result of a bilateral exchange agreement between the Lebanese government and the Egyptian government; exporting Lebanese apples in exchange for Egyptian potatoes. It could be pointed out that other agricultural and industrial products could be imported from Egypt (instead of potatoes), for example rice, ground nuts, dates, figs and cotton (these do not pose as a threat to local products).

Although taxes on some imported goods imposed by the government are high and, thus, entail relatively higher import prices, these prices are still competitive with local prices (as was shown in the results) due to a high cost of production in Lebanon. Henceforth, the intervention by the Ministry of Agriculture is a necessity; it should adopt policies and make provisions to aid the sector in reducing its prices. Such could be in part achieved through the provision of fertilizers, seeds and pesticides at lower prices, as well as the training of farmers with respect to new technologies and methods of production. This could be implemented by imposing dates for chemical pulverization, thus, reducing the amount of such pulverization. In other words, rather than farmers inefficiently engaging in the process several times a year, such a process can be implemented only when required. The establishment of an agricultural cooperative would most likely render cheaper input costs in a more effective manner.

Additionally, one mode of increasing local consumption sales, which may however increase short run production costs, would be to add new target markets for consumption, namely, fast food outlets and supermarkets. For example, producers could cultivate several types of potatoes as requested by fast food franchises, hence, motivate them to consume local production rather than imports. Similar examples could also apply to supermarkets; different types of sweet peppers, mushrooms, and leafy vegetables could be cultivated. However, it is imperative to state that fresh market producers may not be taking such new initiatives due to problems they already encounter with their prevailing commodities. Therefore, the costs incurred of producing the various types of products (some of which mentioned) may be perceived as higher than the benefits as a consequence of existing obstacles.

With respect to the problem of the oversupply of domestic products, the establishment of fresh juices processing factories could be a solution. In fact, among the food and beverages processors that refused to respond, one of them is a fresh juice processor known as K-SUN (Taanayel-Les Fermes); it could be safely assumed that its productions are highly demanded locally. Therefore, the number of such factories (processing orange, apples or grapes juices) could be expanded primarily in order to increase domestic sales, and additionally, to avoid dumping of oversupply produce, small-sized fruits, damaged fruits (due to wind or transportation handling), and diseased fruits (where shape is affected as in the case of apple scab...). This would solve the obstacle of oversupply.

Moreover, role models could be used to enhance import substitution. For example, China places restrictions and quotas on certain imports in order to increase consumption of local produce. In certain categories of agricultural production in Lebanon, such measures could be applied (such as prevention of imports of tomatoes, potatoes and eggplants).

In conclusion, it could be asserted that in accordance to the survey results and the available governmental policies, the Lebanese Agriculture and Agrofood Industry sectors still have to struggle in order to fulfill demands and expectations. Specifically, the industry has to face the above hindrances as a means to increase exportation, expand upon its local production, provide import substitutes, and produce new lines of commodities.

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Annexes

Annex A

High Value Export Opportunities Questionnaire

Lebanon Agribusiness Survey: High Value Export Opportunities

1. COMPANY NAME: _____ 2. SECTOR: _____
3. CONTACT PERSON: _____ 4. POSITION/TITLE: _____
5. ADDRESS: _____ 6. TEL/FAX: _____

7. What are your four major export markets and products at present?

Markets _____

Products _____

8. What are your approximate annual export sales? _____

9. Are these export sales growing or falling? ☐ Growing ☐ Falling

10. On average, by what percent have they been growing/falling annually in the past three years?

1997: _____% 1998: _____% 1999: _____%

11. Do you expect sales of your current products to grow in the future? ☐ Yes ☐ No

12. What are the four major business problems you face in increasing your export sales?

One. _____

Two. _____

Three. _____

13. What are the four major policy-related problems you face in increasing your export sales?

One. _____

Two. _____

Three. _____

Four. _____

14. List the four major specific actions that could be undertaken to expand the export sales of your firm?

One. _____

Two. _____

Three. _____

Four. _____

15. What additional products could you produce for export markets? (Fill in table below)

Opportunities for Export Growth					
EXPORT MARKETS	Export Groups				
	Fresh Fruit and Vegetables	Frozen or Canned Fruit and Vegetables	Other Processed Foods (Dried)	Horticultural (Flowers)	Other Exports
Middle East Region					
Arab Gulf Countries					
Europe					
North America					
Australia					

16. Why haven't you produced any of them yet? _____

Annex B

Import Substitute Questionnaire

Lebanon Agribusiness Survey: Import Substitute

1. COMPANY NAME: _____ 2. SECTOR: _____
3. CONTACT PERSON: _____ 4. POSITION/TITLE: _____
5. ADDRESS: _____ 6. TEL/FAX: _____

7. What are the four major products that you currently produce?
_____, _____, _____, _____

8. What kind of clients do you sell to: ☐ Supermarkets ☐ Small stores ☐ Restaurants ☐
Hotels
☐ Caterers ☐ Food services ☐ Fast food chains ☐ Others, specify _____

9. What is the approximate value of your annual sales? _____

10. Are your annual sales to domestic clients growing or falling? ☐ Growing ☐ Falling

11. On average, by what percent have they been growing/falling annually in the past three years?
1997: _____% 1998: _____% 1999: _____%

12. Do you expect sales of your current products to grow in the future? ☐ Yes ☐ No

13. What are the four major business problems you face in increasing your domestic sales?

- One. _____
Two. _____
Three. _____
Four. _____

14. What are the four major policy-related problems you face in increasing your domestic sales?

- One. _____
Two. _____
Three. _____
Four. _____

15. List the four major specific actions that could be undertaken to expand the domestic sales of your firm?

- One. _____
Two. _____
Three. _____
Four. _____

16. What is the unit price you are receiving for your major product (kg, tons, ...)? _____

17. If you know, what is the estimated unit price for the competing import? _____

18. What are your operations (farm) biggest strength or weakness?

	Strength	Weakness
One. Type of land	<input type="checkbox"/>	<input type="checkbox"/>
Two. Your Know-How	<input type="checkbox"/>	<input type="checkbox"/>
Three. Technology	<input type="checkbox"/>	<input type="checkbox"/>
Four. Labor productivity	<input type="checkbox"/>	<input type="checkbox"/>
Five. Costs of inputs	<input type="checkbox"/>	<input type="checkbox"/>
Six. Access to water	<input type="checkbox"/>	<input type="checkbox"/>
Seven. Access to market	<input type="checkbox"/>	<input type="checkbox"/>
Eight. Marketing information	<input type="checkbox"/>	<input type="checkbox"/>

19. Breakdown the cost structure for your top two products:

One. Land

Two. Labor

Three. Inputs

Four. Transports

Five. Marketing/Management

20. What additional products could you produce for domestic markets? (Fill in the table below by citing specific products)

Opportunities for Import Substitute					
END USERS	Food Groups				
	Poultry and Dairy	Meat	Fresh Fruit and Vegetable	Frozen or Canned Fruit and Vegetables	Processed Foods
Supermarkets (High income)					e.g. Olive Oil
Supermarkets (Mid/low income)					
Food serv/Caterers					e.g. Sauces
Restaurants				e.g. French Fries	
Fast food chains	e.g. Mozzarella Cheese				

21. Why haven't you produced any of them yet? _____
